

Dynamic capability of the firm: analysis of the impact of internationalisation on SME performance in an emerging economy

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Abstract

Purpose - Internationalisation is considered as a key strategy for the growth of Small and Medium Enterprises (SMEs). This article examines the relationship between dynamic capability, SMEs internationalisation and firm performance in the context of emerging economies. The objective of this paper is to evaluate the impact of financial, asset and market expansion on internationalisation of SMEs.

Design/methodology/approach - Using primary data from 212 SMEs from Bangladesh, structural equation modelling and mathematical (hierarchical reflective) model, the analysis enabled the measurement of the casual relationship on the impacts of internationalisation.

Findings – The results revealed that internationalisation of SMEs has significant impact on both financial and non-financial performance of SMEs in an emerging economy- Bangladesh. The paper has found internationalisation impacts on two dimensions (financial and non-financial) with eight defined indicators - higher sales, higher profit, assets maximisation, market expansion, competitive advantage, better reputation, better customer service and added knowledge.

Originality/value of paper- Despite several studies that examine the relationship between SME internationalisation and firm performance, limited research exists on emerging economies. This is contrary to the fact that SMEs are one of the main vehicles for growth in those economies such as Bangladesh. In this research we use the theories of dynamic capabilities to conceptualise how internationalisation becomes a core SME capability for SMEs in an emerging economy.

1. Introduction:

The contribution of small and medium enterprises (SMEs) to economic development has been widely recognised in business and economic literature. These firms are more productive than larger firms and ensure efficiency, productivity, innovation, and employment within economy (Cravo et al., 2012; Gkypali et al., 2021). However, financial markets and other institutional failures in the home country may prevent the development of SMEs. Internationalisation presents itself as a novel way for SMEs to grow (Mendy et al., 2020) and circumvent financial and institutional barriers (Filatotchev et al., 2009; Ganotakis & Love, 2012; Gashi et al., 2014). In this context, internationalization has been defined as a strategic process of firms increasing involvement in international operations across borders (Caputo et al., 2016). Despite the critical importance of going international, little attention has been given to the outcome of SME internationalisation as against a huge literature on antecedents of the same (Martineau & Pastoriza, 2015). Moreover, the literature on SME internationalisation outcome (both financial and non-financial) suffers from contradictory results and method bias.

Considering these shortcomings, Martineau and Pastoriza (2015) suggested conducting further research to assess the internationalisation and performance linkage for the SMEs using new data and methodologies. Therefore, this paper examines the Bangladeshi SME internationalisation and performance relationship using an increasingly popular methodology, known as partial least square (PLS) method, as suggested by Sosik et al. (2009), Henseler et al. (2009), Ringle et al. (2012), Roldan and Sanchez-Franco (2012). Selection of Bangladesh is due to its heavy dependence on SMEs as a major source of economic growth. Rahman, Uddin and Lodorfos (2017) contended that Bangladesh has a very high number of SMEs among South Asian countries and over 80% of the total Bangladeshi labour force works in different SMEs across the country. However, much of the empirical research on SME internationalisation is

largely concerned with the performance outcome of internationalisation, with limited focus on the process that turns internationalisation into dynamic capabilities that produce performance or SME growth. Therefore, in this research by examining internationalisation we use Teece's (2011) theories of dynamic capabilities to conceptualise how internationalisation becomes a core SME capability for Bangladeshi SMEs.

By examining the dynamic capabilities, the financial and non-financial impact of internationalisation on firm's performance, this article contributes to knowledge in several ways. First, we contribute to identifying issues and conditions under which SMEs in emerging economy such as Bangladesh develop dynamic capabilities, performance, market agility and sustainable competitive advantage. There is no significant research on marketing agility, how marketing agility could be developed and sustained in emerging markets such as Bangladesh (Osei et al., 2019). Secondly, we clarify and analyse financial and non-financial impacts variables that impact on SMEs internationalisation. It has been revealed that international expansion is an important decision for SMEs, which traditionally face financial constraints (Pacheco, 2019). This article extends the literature on this topic since it is focused on SMEs in developing country context with unique environmental, market and business factors.

The rest of the paper is organised as follows: section one examines the theory of dynamic capabilities, develops the hypotheses building on the SME internationalisation literature and summarises these hypotheses with conceptual model and hypothesis development. The second section then outlines the methodology while the third presents and discuss the finding. The final section summarises the research and considers its implications.

2. Literature review and Hypothesis Development

Resource-based Theory and Dynamic capabilities

The theory of resource-based view (RBV) has become one of the most influential and cited theories (Kraaijenbrink, Spender & Groen, 2010). RBV emphasises that the accumulation of valuable, rare, inimitable and non-substitutable (VRIN) resources by firms (Lin & Wu, 2014). Lin and Wu (2014) maintain that dynamic-capability view (DCV) have been used to extend RBV to analyse the influences of dynamic markets, the important role of capabilities to build, integrate and reconfigure resources to cope with the highly volatile environment. Consequently, Teece's (2011) theory of dynamic capabilities has been used to inform this investigation. The theory projects a strategic approach to seeing the organisation's competitive strategy. The author sees dynamic capabilities as encapsulating internal structures human capital (competencies and social capital), networks, etc. in addition to the institutional and societal framework of the organisation, e.g. economic system, cultural norms and legal frameworks etc.

In conditions involving dynamic and fast-changing environments, DCV explains firm competitiveness more effectively than RBV (Lin & Wu, 2014). Mudalige et al. (2019) conceptualise these as organisational dynamic capabilities and institutional dynamic capabilities. Such a perspective implies that both the firm's internal resources external resources must be strategically exploited to create competitive advantage. As a result, in Denrell & Powell's (2016) view, dynamic capabilities do not only the firm's operational potentials. From Teece's (2011) standpoint, dynamic capabilities enable the organisation to "create, extend, or modify its resource base" in response or the dynamic environment in which it operates.

Hypothesis development

Park and Jang (2012) considered higher level of sales as an indication of firm success. Kumar (2013) pointed out that sales growth potential is better for SMEs compared to larger firms.

McAdam (2000) stated that SMEs are more concerned to allocate their limited resources more optimally than the larger firms to achieve higher sales or rapid growth. Internationalisation has long been regarded as one of the most effective ways to ensure sales growth of firms (Singh et al, 2009; Park and Jang, 2010). Despite this important relationship between sales growth and SME internationalisation, literature is still short of a consensual state. While some of the studies (Rahman, et al., 2020; Moen, Heggeseth & Lome, 2016; Lages & Lages, 2004) identify higher sales as an important outcome of internationalisation, other studies (Albaum & Tse, 2001; Ling-yee & Ogunmokun, 2001; Lu & Beamish, 2006) do not support that positive impact. Considering this debate over the nature of relationship between higher sales and SME internationalisation, the following hypothesis is proposed:

H1a: higher sales as a factor of financial impact and internationalisation of SMEs will not be independent from each other.

Internationalisation strategies are often motivated by the higher profit expectation (Pangarkar 2008). Although increased turnover/sales can contribute to profitability, this study keeps higher sales as a separate variable. While, it is a significant and important panacea for profitability, it does not always automatically happen particularly in SMEs. Internationalisation of SMEs can lead to higher profit because of higher revenue (Lu & Beamish, 2006), cheap labour (Pangarkar, 2008), production efficiency (Thomas & Eden, 2004), lower taxes (Pangarkar, 2008) and/or the possibility of arbitrage (Allen & Pantzalis, 1996). However, Lu and Beamish (2006) pointed out that continued foreign expansion would be accompanied by decelerating profit growth and negative marginal returns beyond some optimal level. Vuorio, Torkkeli, and Sainio (2020) do not consider higher profit a result of internationalisation alone but more critically of SME innovation. Therefore, the findings related to higher profit as an important impact of internationalisation are still inconclusive. Based on the above discussions, it has been hypothesised that:

H1b: Higher profit as a factor of financial impacts and internationalisation of SMEs will not be independent from each other.

It has been argued that internationalisation enables the SMEs to access complementary assets-based resources (Estrin et al., 2017; George et al., 2001; Lavie & Miller, 2008). In fact, internationalisation of firms may facilitate the bundling of resources that owners or managers use to create value, i.e. to increase assets firms' assets (Javalgi and Todd, 2011). A number of studies suggest that internationalisation has a positive impact on the growth of a firm's assets (Mudalige et al., 2019; Ling-yee and Ogunmokun, 2001; Lages and Lages, 2004; Chelliah et al., 2010). However, authors such as Hoang (1998), Wolff and Pett (2000) and Shoham et al. (2002) did not find any positive impact. Therefore, the findings related to increase in assets as an important impact of internationalisation are not consistent. On the basis of the above discussions, it has been hypothesised that:

H1c: Increase in assets as a factor of financial impacts and internationalisation of SMEs will not be independent from each other.

Cadogan et al. (1999) considered market expansion as an outcome of internationalisation strategy. Although larger firms are at the forefront of international market expansion, SMEs are also coming forward to expand the market internationally (Mendy et al., 2020; Pangarka, 2008) and earning more revenue from international market than local market (Chelliah et al., 2010). Some studies find positive relationships between internationalisation and market expansion such as Dhanaraj & Beamish (2003), Akyol & Akehurst (2003), Morgan et al. (2004) and Smolarski & Kut (2011). However, Kwon & Hu (1995), Armario et al. (2008) and Kirca et al. (2009) did not find a positive relationship between market expansion and internationalisation. On the basis of above discussions, the following hypothesis is proposed:

H1d: Market expansion as a factor of financial impact and internationalisation of SMEs will not be independent from each other.

Competitive advantage is an important outcome of internationalisation (Hsu et al., 2013). Although competitive advantage is important for both large and small firms, it is more important for smaller firms because of the resource constraints (Bell, Crick, & Young, 2004; Bonaccorsi, 1992; Ghauri & Herbern, 1994). While large firms are financially capable to develop product diversity, market or even skills, SMEs are more dependent on comparatively low cost and high value business strategies. According to Hsu et al. (2013), internationalisation assists these firms to achieve competitive advantage particularly for the firms which have limited home market opportunities. Other studies that support a positive impact of internationalisation on attaining competitive advantage include research by Albaum and Tse (2001), Cadogan et al. (2003), Rose and Shoham (2002), Balabanis and Katsikea (2003), Akyol and Akehurst (2003), Morgan et al. (2004) and Chelliah et al. (2010). However, Lu and Beamish (2006) could not find any such relationship. On the basis of above discussions, the following hypothesis is proposed:

H2a: Competitive advantages as a factor of non-financial impact and internationalisation of SMEs will not be independent from each other.

Firm reputation plays an important role in attracting the target customers (Summer, Hack-Polay & Tehseen, 2021). It is generally agreed that large firms have more resources to manage reputation. In contrast, SMEs build their reputation in the long run based on the quality of products or services, values and networks. Lu and Beamish (2006) stated that SMEs can build reputation by pursuing an internationalisation strategy as it helps to improve product quality and increase their networks. Studies that support positive relationship between enhanced

reputation and internationalisation include those by Morgan et al. (2004), Ruzzier et al. (2007), Lu and Beamish (2006) and Pangankar (2008). However, Hoang (1998), Francis and Collins-Dodd (2000) and Wolff and Pett (2000) did not find reputation to be an outcome of internationalisation. Consequently, the following hypothesis is proposed:

H2b: Better reputation as a factor of non-financial impact and internationalisation of SMEs will not be independent from each other.

It has been argued that success of SMEs is partly dependent on the skills of the owners and managers (Hack-Polay, Ogbaburu & Rahman, 2020; Bryan, 2006). International business skills assist firms in becoming successful in both local and international markets by developing business expertise, international orientation, environmental perceptions and demographic diversity (Manolova et al., 2002). Internationalisation is a source for accumulating business skills that augment the organisation's capabilities as suggested by Mudalige et al. (2019); Morgan et al. (2004), Aspelund & Moen (2005), Knight & Cavusgil (2004). However, Hoang (1998), Francis & Collins-Dodd (2000) and Wolff and Pett (2000) could not agree on the role of internationalisation in enhancing business skills. On the basis of above discussions, the following hypothesis is proposed:

H2c: Skills development as a factor of non-financial impact and internationalisation of SMEs will not be independent from each other.

Knowledge is one of the most important success factors of business process management (Trkman, 2010; Mahmoud, Delrosario, et al., 2018). While larger firms can improve knowledgebase through hiring staffs, SMEs cannot do the same for resource limitations. Internationalisation could be a good source of knowledge accumulation for the SMEs as Autio et al. (2000) pointed out that firms may enjoy learning advantages from newness. While studies by Zahra & Hayton (2008) and Bradley and O'Reagain (2001) consider new knowledge as an

important outcome of internationalisation, others such as Hoang's (1998), Francis & Collins-Dodd's (2000) and Wolff and Pett's (2000) investigations did not arrive at the same conclusion. On the basis of above discussions, the following hypothesis is proposed:

H2d: New knowledge as a factor of non-financial impact and internationalisation of SMEs will not be independent from each other.

Conceptual model

Based on the theory of dynamic capabilities (Teece, 1991) and the extant literature on internationalisation of SMEs, this paper proposes the research model illustrated in Figure 1. This model suggests there are two major types of impact due to internationalisation for Bangladeshi SMEs. These are financial impacts and non-financial impacts. Financial impacts consist of higher sales, higher profit, more assets and market expansion. Non-financial impacts consist of competitive advantage, better reputation, skill development, and new knowledge.

FIGURE 1 HERE

In Figure 1, there are 8 hypotheses on the impacts of internationalisation of SMEs based on findings in the literature from previous studies with particular attention on emerging economies. These hypotheses are classified into 2 groups - Financial Impacts and Non-Financial Impacts. Under the category of financial impact, 4 hypotheses are based on 4 factors - higher sales, higher profit, more assets and market expansion. There are 4 more hypotheses based on 4 non-financial factors - competitive advantage, reputation, skill development and new knowledge.

3. Methodology:

The Bangladeshi Context

SMEs are considered as the engine to employment generation and economic growth particularly for the developing countries. Although SMEs are significant both for all types of economies, emerging economies are more dependent to these smaller firms. On the other hand, many SMEs struggle to survive in the long run (Mendy, et al., 2020). While this is a significant issue for entrepreneurship research, the number of studies on the internationalisation of SMEs is very limited. Therefore, this study focuses on the internationalisation of SMEs from Bangladesh perspective whose economy is significantly dependent on the performance of SMEs (Mendy, et al., 2020). Bangladesh is a leading developing country and where both SMEs and internationalisation count as a significant part of the country's major economic activities.

This study developed and validated a partial least squares based SEM (PLS-SEM) on the impacts of internationalisation for SMEs where it formulates a theory that is empirically testable and “law-like generalisations” (Orlikowski & Baroudi, 1991; Henseler et al., 2009). As this study proposed a mathematical (hierarchical reflective) model on the impact of internationalisation for Bangladeshi SMEs and formulates a theory that is empirically testable, the research philosophy reflected in this study is positivistic in nature.

The purpose for using the empirical survey was to measure a casual network relationship on the impacts of internationalisation for SMEs. To carry on the empirical investigation, cross-sectional survey technique was applied to extract views from the respondents only once (Malhotra, Kim & Patil 2006). To achieve the maximum response rate from a developing country perspective, standard mail out procedure was applied rather than a home, telephone or

online survey (Dillman, 1978). This study developed hypotheses on the basis of relevant literature review to propose hierarchical reflective models.

To validate the model, an empirical survey was carried out which followed deductive research approach. Data were collected from four major divisions of Bangladesh – Dhaka, Khulna, Chittagong and Rajshahi from July 2011 till September 2011. A total of 1000 questionnaires were distributed among these four divisions (250 questionnaires each) following the cluster sampling technique. To ensure equal selection opportunities, a systematic random sampling technique was applied. The population for the survey was defined as the SMEs doing international business, i.e. interacting or trading with other businesses and customers across borders. Non-internationalised firms were excluded as the dynamics of local firms are very different than the internationalised SMEs (Mendy et al., 2020). Out of 1000 questionnaires, 219 responses were received. Among the 219 returns, 7 were unusable due to excessive missing data. Finally, the data from 212 questionnaires were analysed. As common method variance (CMV) is an issue for survey based empirical examination with several constructs particularly in social science, this study applied Harman 1 factor test as suggested by Mendy et al. (2020). Harman 1 factor test found no significant biases which ensured that CMV is not an issue for this data set. We have also compared the test on the average of early and late responses to examine non-response biases.

TABLE 1 HERE

Data and Survey

From Table 1, it can be observed that data were collected from a diverse cross-sectional population. Out of 219 respondents, 68.1% are male and 32.9% were female. From business

sector point of view, 13.9% from primary, 51.4% from manufacturing and 34.7% from service sector. 28.5% from Dhaka, 25.8% from Chittagong, 22.1% from Rajshahi and 23.6% from Khulna division. From business types' point of view, 28.9% sole traders, 21.4% Partnership, 9.1% family business, 6.9% co-operative and 33.7% private limited company.

The items of the questionnaire were identified from systematic reviews of literature. All these items were measured on a 5-point Likert Scale. Before final data collection, a piloting of the questionnaires was carried out among 20 samples and five academics to ensure the appropriateness of wording, content, scales, sequence and format. Minor amendments were made on the basis of pre-test results.

Hierarchical Reflective Model

To assess the impacts of internationalisation on the performance of SMEs from Bangladesh, this study applied PLS based SEM. The PLS-SEM model is based on hierarchical construct which is defined with multiple dimensions at several hierarchies to capture an overall latent variable (Akter et al., 2010; Wetzels et al., 2009). This is supported by many studies which show that the hierarchical construct is effective in reducing model complexity and increasing theoretical discretion (MacKenzie et al., 2005; Reinartz et al., 2009; Roldan & Sanchez-Franco, 2012).

Another key advantage of using the hierarchical construct is related to the level of abstraction for predictor and criterion variables (Chin & Gopal, 1995). Although there are many advantages, PLS-SEM is critiqued as it is unable to consistently estimate factor models (Henseler, 2012). This paper aims to identify the impacts of internationalisation on performance of SMEs from the Bangladesh perspective. It specifies the impacts of internationalisation on performance of Bangladeshi SMEs as a hierarchical reflective model

with two reflective constructs (Figure 1) - financial impacts of internationalisation and non-financial impacts of internationalisation.

Both of these constructs share a common theme which is the overall impact of internationalisation on the performance of Bangladeshi SMEs. According to Bollen and Lennox (1991), the correlation between two measures is supposed to be highly positive for a reflective construct. Akter et al. (2010) and Petter, Straub and Rai (2007) further explained that internal consistency is one of the most important elements of reflective constructs. Besides, the un-dimensional nature of the reflective measures assists to get rid of individual measures for the purpose of improving construct validity with no effect on content validity (Petter, Straub and Rai, 2007). Table 2 shows the methods of estimating the impact of SME internationalisation as a hierarchical reflective model.

TABLE 2 HERE

FIGURE 2 HERE

In Figure 2, there are two orders- a first order and second order. In the first order, there are two latent variables to assess the impacts of internationalisation on the performance of Bangladeshi SMEs - financial impacts of internationalisation and non-financial impacts of internationalisation that are related to the respective measures (manifest variables or MVs). In the second order, impacts of internationalisation on the performance of SMEs are shown in a hierarchical reflective model that is constructed by 8 MVs (4+4) of 2 first order constructs.

Analysis of Measurement Model

In order to assess the impacts of internationalisation of SMEs from Bangladesh perspective, this study has used PLS Graph 3.0 (Chin, 2001). By using the hierarchical model with PLS

path modelling with a path weighting scheme for the inside approximation (Akter et al., 2010; Chin, 2001; Chin, 1998; Wetzels et al., 2009), this study developed path weighting scheme on the impacts of internationalisation on the performance of SMEs. Following the path weighting scheme, this study also used nonparametric bootstrapping (Akter et al., 2010; Chin, 2001; Chin, 1998; Wetzels et al., 2009) where the standard errors of the estimates are attained using 500 replications. Beside, the approach of repeated indicators are also used by this study to estimate the higher order latent variables as suggested by Akter et al. (2010) and Wold et al. (2001). Thus, the second order factors (impacts of internationalisation on the performance of Bangladeshi SMEs) are directly measured by the items (manifest variables) of first order factors (financial impacts and non-financial impacts).

TABLE 3 HERE

A study conducted based on primary data requires the acceptability test of the data in the form of ‘reliability and validity’ to gain acceptability (Schwab, 1980). A confirmatory factor analysis (CFA) was carried out initially to estimate the model and assess reliability and validity. Table 3 shows that 7 out of 8 individual item loadings are higher than 0.70 and significant at 0.01. Only one item loading is 0.69 that is also close to the minimum threshold.

In addition, to assess reliability of the scale, the Composite Reliability (CR) and Average Variance Extracted (AVE) were estimated (Chin 1998; Fornell & Larcker, 1981). Here, the calculated CR for financial impacts (0.862) and non-financial (0.830) impacts of internationalisation (Table 3) were higher than the modest threshold 0.70 (Hulland, 1999). This indicates that items of each scale are highly consistent. Furthermore, the calculated AVE for financial impacts (0.612) and non-financial impacts (0.551) of internationalisation (Table 3) were higher than modest threshold 0.50 (Fornell & Larcker 1981; Mendy & Rahman, 2019), which indicates that each construct captures adequate variance from its items and all the

constructs are conceptually distinct. Thus, the convergent validity requirement of all the scales was ensured. Finally, square root of AVE was calculated in Table 4 to ensure discriminant validity, which indicates that all the values (i.e., square root of AVE) are higher than the corresponding correlation coefficients in the correlation matrix (Chin, 1998; Fornell & Larcker, 1981; Hulland, 1999). Therefore, all results related to the analysis of the measurement model were satisfactory having adequate reliability, convergent validity and discriminant validity.

TABLE 4 HERE

Assessment of higher order model

Impacts of internationalisation on the performance of Bangladeshi SMEs are shown as a second order hierarchical construct model in Figure 3 and Table 2. The degree of explained variance in second order constructs (overall impacts) is reflected in the first order constructs, that is financial impacts (80%) and non-financial impacts (75%). The entire path coefficient from overall impacts of internationalisation to second order (financial and non-financial) is significant at $P < 0.01$ (Table 3). Besides, the CR and AVE value for the first order constructs (financial impacts and non-financial impacts of internationalisation) are higher than 0.70 and 0.50 respectively that indicate the validity of higher order reflective model.

FIGURE 3 HERE

In the above (Figure 3), overall impacts of internationalisation of SMEs are shown in two orders - first and second. In the first order model, overall impacts are categorised under two dimensions- financial impacts and non-financial impacts. Financial and non-financial impacts are then shown through second order hierarchical reflective model with 8 MVs (4+4).

Analysis of Structural Model and Results of Hypotheses Testing:

Further to the model assessment, structural validity also is needed validating in SEM. To assess the structural validity of this model (Figure 3), this study has estimated the relationship between the overall impacts of internationalisation on the performance of SMEs and its sub-dimensions (financial impacts on internationalisation and non-financial impacts of internationalisation) with beta of 0.893 and 0.864. All these path coefficients are significant at $p < 0.01$ (Table 5). Thus, all the hypotheses are supported (Table 6).

TABLE 5 HERE

TABLE 6 HERE

4. Discussion

This study contributes to existing knowledge by explaining the impacts of internationalisation on SMEs through a hierarchical reflective model with particular attention to Bangladeshi SMEs. By using the reflective hierarchical model, this study proposes performance outcomes (financial and non-financial) in the form of impacts of internationalisation on SMEs in Bangladesh (see Figure 2). Each of these components of impacts of SME internationalisation reflects a unique principle, while the group provides a solid and parsimonious foundation for hierarchical model of impacts of internationalisation on SME performance. There are four factors under the financial impacts of internationalisation. These factors are- higher sales, higher profit, more assets and market expansion. The association between higher sales and financial impacts of internationalisation ($\beta = 0.762$) was significant at $p < 0.001$. Thus, higher sale is confirmed as a significant factor in the context of financial impacts of internationalisation for SMEs in Bangladesh (see, Table 6). By empirical support, this study, therefore, supports the view of the studies that identify higher sale as an important impact of

internationalisation (Morgan et al., 2004; Lages & Lages, 2004; Lages & Montgomery, 2004; Lee et al, 2012; Smolarski and Kut, 2011; Chelliah et al, 2010; Pangankar, 2008). Similarly, the association between higher profit and financial impact of internationalisation ($\beta = 0.704$) was significant at $p < 0.001$. Thus, higher profit is confirmed as a significant factor in the context of financial impacts of internationalisation for the SMEs in Bangladesh (see Table 6). By empirical findings, this study, therefore, extends the view of the studies to identify higher profit as an important impact of internationalisation (Dhanaraj and Beamish, 2003; Morgan et al, 2004; Lages and Lages; 2004, Lages and Montgomery, 2004; Chelliah et al, 2010; Pangankar, 2008). The association between increase in assets and financial impacts of internationalisation ($\beta = 0.863$) was significant at $p < 0.001$. Thus, increase in assets is confirmed as a significant factor in the context of financial impacts of internationalisation for the SMEs in Bangladesh (Table 6). This study, therefore, supports existing studies which identify increasing assets as an important impact of internationalisation (see, Ling-yee & Ogunmokun, 2001; Solberg, 2002; Brouters & Xu, 2002; Cadogan et al., 2002; Rose & Shoham, 2002; O'Cass & Julian, 2003; Lages & Lages, 2004; Chelliah et al., 2010). Similarly, the association between market expansion and financial impact of internationalisation ($\beta = 0.790$) was significant at $p < 0.001$. Thus, market expansion is confirmed as a significant factor in the context of financial impacts of internationalisation for the SMEs in Bangladesh (Table 6). By empirical findings, this study extends the view of the studies to identify market expansion as an important impact of internationalisation including Rahman., et al. (2020), Albaum and Tse (2001), Cadogan et al. (2002), Rose and Shoham (2002), , Morgan et al. (2004), Chelliah et al. (2010).

There are four factors under the non-financial impacts of internationalisation. These factors are competitive advantage, better reputation, skill development and new knowledge. The association between competitive advantage and non-financial impacts of internationalisation

($\beta = 0.826$) was significant at $p < 0.001$. Thus, competitive advantage is confirmed as a significant factor in the context of non-financial impacts of internationalisation for the SMEs in Bangladesh (Table 6). By empirical support, this study, therefore, supports the view of the studies to identify competitive advantage as an important impact of internationalisation (Rahman et al., 2020; Mendy & Hack-Polay, 2018). Similarly, the association between better reputation and non-financial impact of internationalisation ($\beta = 0.693$) was significant at $p < 0.001$. Thus, better reputation is confirmed as a significant factor in the context of non-financial impacts of internationalisation for the SMEs in Bangladesh (Table 7.6). By empirical findings, this study, therefore, extends the view of the studies to identify better reputation as an important impact of internationalisation including Morgan et al. (2004), Ruzzier et al. (2007), Zyglidopoulos et al. (2003), Lu and Beamish (2006), and Pangankar (2008). The association between skill development and non-financial impacts of internationalisation ($\beta = 0.730$) was significant at $p < 0.001$. Thus, skills development is confirmed as a significant factor in the context of non-financial impacts of internationalisation for the SMEs in Bangladesh (Table 6). This study, therefore, add to research evidence that identified skill development as an important impact of internationalisation (e.g. Morgan et al., 2004; Knight, 2000; Aspelund & Moen, 2005; Knight & Cavusgil, 2004). Similarly, the association between new knowledge and non-financial impact of internationalisation ($\beta = 0.712$) was significant at $p < 0.001$. Thus, new knowledge is confirmed as a significant factor in the context of non-financial impacts of internationalisation for the SMEs in Bangladesh (Table 6). By empirical findings, this study, therefore, extends the view of the studies to identify new knowledge as an important impact of internationalisation (see, Mendy & Hack-Polay, 2018; Rahman, et al., 2020).

5. Conclusion:

Summary

One of the key objectives within this study was to identify the impacts of internationalisation on the performance of Bangladeshi SMEs. To fulfil this objective, this study has developed and validated a structural model on the impact of an internationalisation model that is able to explain the key impacts of internationalisation on performance of Bangladeshi SMEs. This study also contributes by extending our knowledge on the impacts of internationalisation as a dynamic capability for SMEs from Bangladesh by categorising internationalisation impacts in two dimensions (financial impacts and non-financial impacts) with eight indicators (higher sales, higher profit, assets maximisation, market expansion, competitive advantage, better reputation, better customer service, added knowledge). Denrell and Powell (2016) contend that the firm's internal dynamic capabilities are important in embarking on the internationalisation journey. However, these capabilities will remain dormant, thus, not useful (or dynamic) if they do not interact effectively with the institutional dynamics (culture, legal frameworks, networks, etc.) within the international markets. In this perspective, we conceptualise internationalisation itself as an external dynamic capability that can reinforce and give competitive meaning to SME internal capabilities.

It has effectively enclosed impacts of internationalisation as a dynamic capability on the performance of SMEs in a second order reflective model where both two dimensions reflect overall impacts of internationalisation on the performance of SMEs. Hence, it complements to theoretical support for studies of Teece (20011) and Pangarka (2008). It also provides further support for Mudalige et al. (2019) perspectives about the criticality of the deployment of institutional dynamic capabilities in SMEs are to make effective use of the opportunities in the international environment. In general, the financial impacts of the effective deployment of internationalisation as dynamic capability seem to be most influential impacts on performance as it explains 80% of overall variance followed by the non-financial impacts (75%) because it

augments the learning that organisational members use in both operational and strategic formulation (Mudalige et al. (2019). Even though the ranking has been done on the basis of the explanatory power of individual constructs, the magnitude of difference is relatively small. Thus, it can be suggested that all these constructs should be given equal attention.

Limitations and further research

The main limitation of the study centres of its geo-cultural coverage. Though Bangladeshi is credited with more SMEs in South Asia, limiting the study in this sphere restricts generalisability because economies and cultures in South Asia present some particularities. In the light of the limitation of the findings of this research, we suggest that future investigations consider a more systematic and in-depth examination what learning sits in the international environment that is critical for developing country SME to internalise and appropriate, then how to deploy them. Such an approach will help theorise internationalisation not as a mere external factor impacting SMEs but as part of the critical capabilities for growth. Future studies could also consider a wider developing world context by collecting data in several countries in order to derive some useful comparisons according to the level of economic development and cultural systems.

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Tables

Table 1 Profile of the respondents

Particulars	Category	Percentage	Particulars	Category	Percentage
Gender	Male	68.10	Sector of business	Primary	13.90
	Female	32.90		Manufacturing	51.40
				Service	34.70
Area	Dhaka	28.50	Business Type	Sole trader	28.90
	Chittagong	25.80		Partnership	21.40
	Rajshahi	22.10		Family	09.10
	Khulna	23.60		Co-operative	06.90
				Private Ltd	33.70

Table 2 Estimation of the impacts of internationalisation

First Order	Second Order
$y_i = \Delta_y \cdot \eta_j + \varepsilon_i$ y_i = manifest variables Δ_y = loadings of first order latent variables η_j = first order latent variables (financial and non-financial) ε_i = measurement error of manifest variables	$\eta_j = \Gamma \cdot \xi_k + \zeta_j$ η_j = first order factors (e.g. financial) Γ = loadings of second order latent variables ξ_k = second order latent variables (profit related) ζ_j = measurement error of first order factors

Table 3 Psychometric properties for first order constructs

Constructs	Items summary	Loadings	CR	AVE
FI- Financial Impacts	FI 1- Higher Sales	0.762	0.862	0.612
	FI 2- Higher Profit	0.704		
	FI 3- Increase in assets	0.863		
	FI 4- Market Expansion	0.790		
NI- Non-financial Impacts	NI 1- Competitive Advantage	0.826	0.830	0.551
	NI 2- Better reputation	0.693		
	NI 3- Better customer service	0.730		
	NI 4- Added knowledge	0.712		

Table 4 Latent Variable Correlations

Constructs	Financial	Non-financial
Financial	0.928	
Non-financial	0.544941	0.911

Table 5 Path Coefficients (Mean, STDEV, T-Values)

Particulars	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics (O/STERR)
Overall Impacts -> Financial	0.893375	0.894110	0.014665	60.917287
Overall Impacts -> Non-financial	0.863573	0.864119	0.018080	47.763635

Table 6 Results on Hypotheses

Hypothesis	Path coefficient	t-value	Conclusion
H1a: Higher sales is positively related to the financial impacts on the performance of SMEs	0.762	15.182	Supported
H1b: Higher profit is positively related to the financial impacts on the performance of SMEs	0.704	18.082	Supported
H1c: Increase in assets is positively related to the financial impacts on the performance of SMEs	0.863	51.173	Supported
H1d: Market expansion is positively related to the financial impacts on the performance of SMEs	0.790	28.082	Supported
H2a: Competitive advantage is positively related to the non-financial impacts on the performance of SMEs	0.826	36.205	Supported
H2b: Better reputation is positively related to the non-financial impacts on the performance of SMEs	0.693	17.411	Supported
H2c: Skills development is positively related to the non-financial impacts on the performance of SMEs	0.730	14.411	Supported
H2d: New knowledge is positively related to the non-financial impacts on the performance of SMEs	0.712	14.691	Supported

Figures

Figure 1: Hypotheses on the impacts of internationalisation

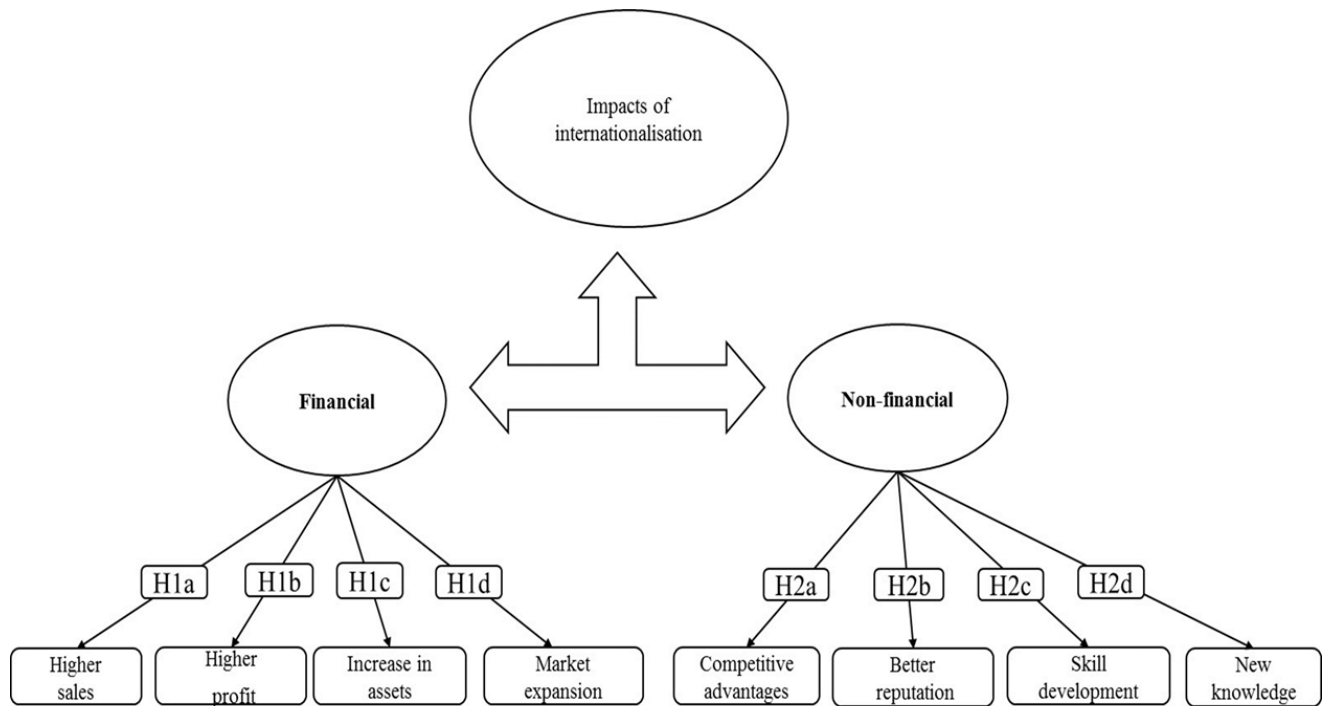


Figure 2: Impacts of internationalisation on the performance SMEs

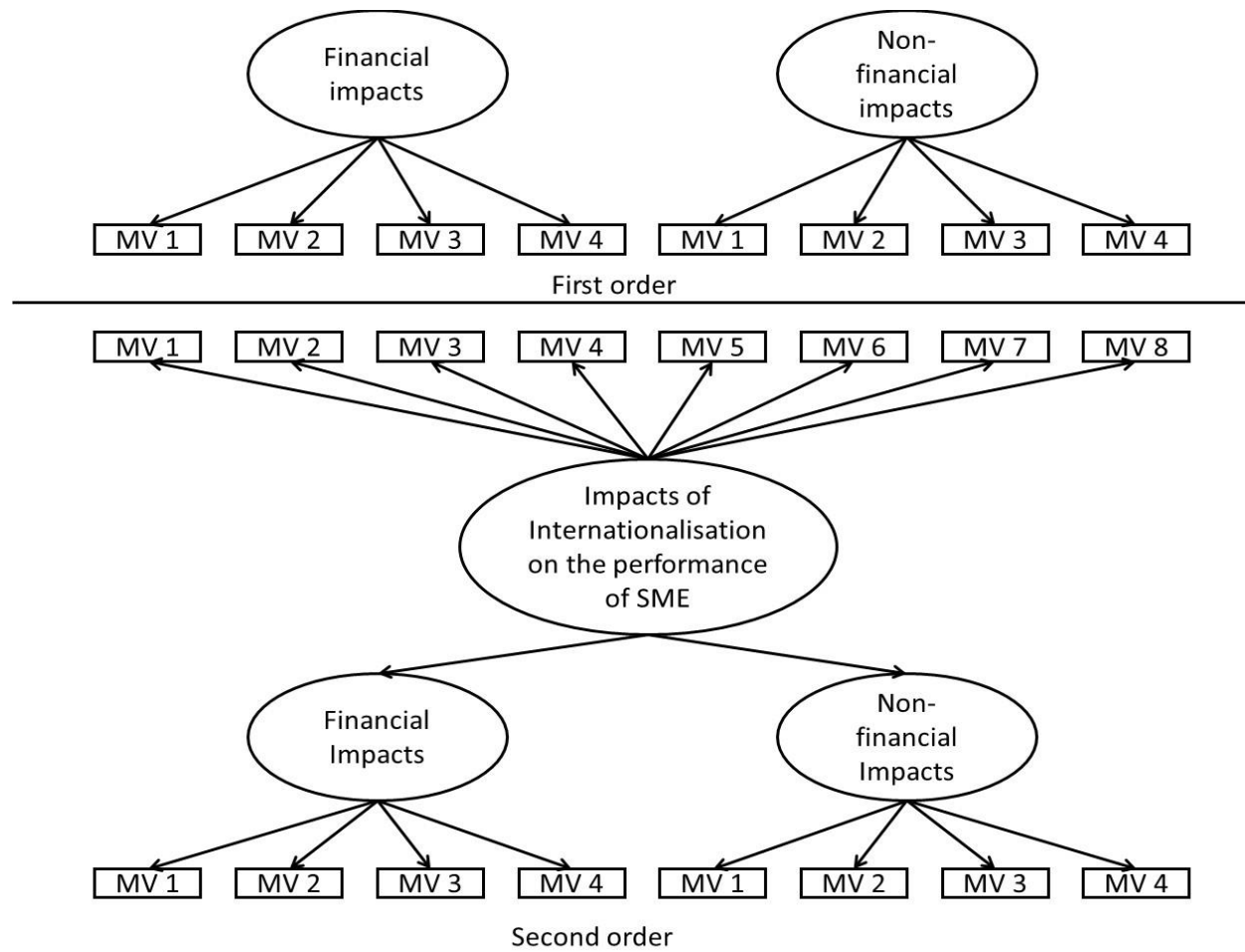


Figure 3: Main loadings of the model

